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Implementation of the support cost components of the successor programming arrangements

Report of the Administrator

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I. BACKGROUND AND PURPOSE

1. In its decision 91/32, the Governing Council established the successor arrangements for agency support costs that were fully introduced in the fifth programming cycle (1992-1996). In accordance with paragraph 33 of that decision, document DP/1995/49, which was originally prepared for review at the third regular session of the Executive Board, contains a report on the financial status of the various provisions of the support cost arrangements in the fifth cycle. It should be recalled, however, that the Executive Board deferred review of document DP/1995/49 to a subsequent session. The present report has been prepared as an adjunct to document DP/1995/49 with the intention that both reports be considered together at the second regular session 1996.

2. The present document provides an overview of the support costs components approved under decision 95/23, highlighting in particular the financial framework approved for this purpose in the successor programming arrangements. The report also points out those instances where it may be necessary to amend the existing support cost arrangements based on an assessment of experience during the fifth cycle, and consistent with the overall procedures being established for the successor programming arrangements, including the modifications introduced to the support costs elements.

II. SUPPORT COSTS COMPONENTS OF THE SUCCESSOR PROGRAMMING ARRANGEMENTS

A. Financial earmarkings

3. Decision 95/23 provided resource earmarkings for various programme support activities, including those related to support costs. However, the Executive Board greatly simplified the structure for support costs by establishing three major lines in the new resource framework, which replaced the nine lines used in the fifth cycle. This simplification, in part, reflects the completion of the introduction to the new agency support cost arrangements in the fifth cycle, which eliminated the need for some of the transitional financial lines.

4. Table 1 of decision 95/23 sets out the three resource allocation lines relating to programme support costs. These are summarized below:

(a) Line 1.6 - Support for implementation of programmes and projects, with an earmarking of 3 per cent of total core resources for the three-year period 1997-1999, or $33 million annually;

(b) Line 2.2 - United Nations system support for policy and programme development (SPPD), with an earmarking of 2 per cent of total core resources or $22 million annually; and

(c) Line 2.3 - United Nations system support for technical services at the project level (STS), with an earmarking of 1.6 per cent of total resources or $17.6 million annually.

5. Together, these three lines constitute support from UNDP core resources for the cost of executing and implementing UNDP-funded programmes and for providing technical and programme support services from the United Nations system.

6. The total annual earmarkings for the United Nations system support (lines 2.2 and 2.3) in the new period exceed those available in the fifth cycle. In paragraph 7 of its decision 95/23, the Executive Board established an initial planning figure for total core resources of $3.3 billion for the three-year period 1997-1999. However, as the Administrator pointed out at the first regular session 1996, the latest estimates of voluntary contributions are expected to fall short of the $1.1 billion dollar average annual target for core resources (conference room paper DP/1996/CRP.2 was also distributed). Thus, for prudent financial planning, the Administrator intends to prorate earmarkings, using an estimated $1 billion in average annual contributions for the period 1997-1999. The figures shown in the text and tables of the present report will be prorated accordingly when released for programming.

B. Implementation of the support cost components

7. As mentioned in paragraphs 1 and 2 above, the support cost arrangements approved for the fifth cycle under decision 91/22 were implemented under a set of operational guidelines developed early in the fifth cycle. 1/ The three lines for support costs established under the successor arrangements represent a considerable rationalization of the fifth cycle earmarkings but nonetheless preserve the essential purposes for which support costs are provided.

8. Thus, in implementing the support cost provisions of the successor programming arrangements, the guidelines originally established for support costs will continue to apply, *mutatis mutandis*, and will be modified only to the extent necessary to: (a) ensure coherence with overall procedures being established for the successor programming arrangements; (b) reflect experience with the support cost arrangements during the fifth cycle; and (c) accommodate the more simplified system of support cost earmarkings.

9. As outlined in part A of the guidelines for the implementation of successor programming arrangements in UNDP 2/, the programme review, monitoring and oversight system will help to identify the kinds and levels of support needed to assist in programme development and management. This system would, therefore, also determine the need for UNDP headquarters assistance and financial support from various programme earmarkings, including the support cost lines. Thus, the overall procedures outlined for successor arrangements in part A of the guidelines will extend to the implementation of the support cost components, particularly section 3.2 on the resource assignment process,

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1/ Guidelines for (a) the determination of execution and implementation arrangements; and (b) the successor arrangements for agency support costs were issued in October 1992.

2/ These guidelines were summarized in document DP/1996/3. The full text of the draft guidelines (dated 21 December 1995) was also made available to the Executive Board during the first regular session 1996.

section 4 on programme review, monitoring and oversight, and section 5 on start-up and phasing-in procedures.

10. It should also be recalled that in accordance with decision 91/32, an external evaluation of support cost arrangements was undertaken in mid-1994 and reported to the Executive Board in document DP/1994/23/Add.1. Mid-term reviews of individual country programmes have also provided feedback on support costs elements, as summarized in overview reports of the Administrator on mid-term reviews. In addition, UNDP holds regular consultations with the agencies on support cost matters and maintains ongoing review of various aspects of the experience with the support costs during the fifth cycle.

11. These considerations have been taken into account in the following sections, which contains an outline of the operation of the simplified system of support cost earmarkings established under decision 95/23.

C. Revised system of support cost earmarkings

1. Line 2.2: United Nations system support for policy and programme development

12. Line 2.2 provides for policy and programme development support from United Nations specialized agencies, as well as the from the regional commissions. This line incorporates the current allocations for TSS-1 for the large agencies, the sectoral support provision for the smaller agencies, as well as a contribution to the United Nations Industrial Development Organization (UNIDO) Country Director programme for the year 1997 only. A possible elaboration of the earmarking of resources under line 2.2 for the years 1997-1999 is provided in table 1.

13. Within the overall annual allocations shown in table 1, the Administrator intends to make flexible, notional earmarkings among eligible agencies and regional commissions, according to the following criteria:

(a) The need for preparatory/formulation activities in the implementation of the successor programming arrangements;

(b) The need to provide upstream assistance to Governments and more effective coordination from the United Nations system organizations in identifying sustainable human development (SHD) programming opportunities;

(c) The need to channel contributions towards the support of enabling environments for SHD activities in programme countries.

Table 1

United Nations system support for policy and programme development
Estimated resources from line 2.2

(millions of dollars)

		1997	1998	1999
Line 2.2	United Nations system support for policy and programme development a/	22.0	22.0	22.0
Special allocations b/		(4.65)	(1.65)	(1.65)
	Estimated resources of which:	17.35	20.35	20.35
	SPPD services from large agencies c/	12.0	15.0	15.0
	SPPD services from the smaller technical agencies d/	4.0	4.0	4.0
	SPPD services from regional commissions e/	1.35	1.35	1.35

a/ Calculated annually as 2.0 per cent of $1.1 billion in line with decision 95/23. Incorporates TSS-1 for the large agencies and sectoral support resources available to the smaller technical agencies.

b/ As per decision 95/23, the following special allocations have been established as charges against SPPD resources: annually 0.15 per cent of $1.1 billion for programming for Europe and the Commonwealth of Independent States; $3.0 million in 1997 for the UNIDO Country Director Programme.

c/ Notional earmarkings that would apply to the five large agencies: Food and Agriculture Organization of the United Nations (FAO); International Labour Organization (ILO); Department for Development Support and Management Services (DDSMS); United Nations Educational, Scientific and Cultural Organization (UNESCO); and United Nations Industrial Development Organization (UNIDO).

d/ Notional earmarkings that would apply to the smaller technical agencies (those agencies which are currently eligible for support under the sectoral support facility): International Atomic Energy Agency (IAEA); International Civil Aviation Organization (ICAO); International Maritime Organization (IMO); International Trade Centre (ITC); International Telecommunication Union (ITU); United Nations Centre for Human Settlements (UNCHS); United Nations Conference on Trade and Development (UNCTAD); Universal Postal Union (UPU); World Intellectual Property Organization (WIPO); World Meteorological Organization (WMO); and World Tourism Organization (WTO).

e/ Notional earmarkings that would apply to the regional commissions.

SPPD for the large agencies

14. SPPD for the larger agencies will replace TSS-1. During the fifth cycle, TSS-1 was a demand-driven facility responding to requests for support generated by country offices, but managed centrally by UNDP in close collaboration with the agencies. While the results of TSS-1 support have generally been judged successful, the centralized system of management has sometimes made it difficult to link the assistance to UNDP support of national programmes.

15. In order to rectify this situation, allocations for SPPD for the large agencies will be made directly to the country offices concerned in line with the programme review, monitoring and oversight system established for the successor programming arrangements, as referred to in paragraph 9 above. This allocation process will emphasize sectoral needs related to the SHD programming framework for UNDP, and fifth cycle experience in the utilization of TSS-1 resources. Based on the assignment of resources, resident representatives would work directly with the agencies concerned in the joint programming of this support.

SPPD for the smaller agencies

16. SPPD for the smaller agencies replaces the centrally administered sectoral support facility for the fifth cycle but preserves its basic purposes and operational modalities.

SPPD for the regional commissions

17. The procedures for utilization of SPPD for regional commissions will be worked out in consultation with them and the regional bureaux.

2. Line 2.3: United Nations system support for technical services at the project level

18. Line 2.3 is intended to finance support for technical services at the project level from all eligible specialized agencies (see footnote d/in table 2 below). It thus replaces both the TSS-2 facility for the large agencies, as well as the technical support component of the flat rate support cost reimbursements for the smaller agencies. 3/ Table 2 summarizes the financial provisions for these services.

3/ Smaller agencies are reimbursed at the rate of 13 per cent of project expenditures plus flexibility payments, as appropriate. The 13 per cent payment is presently made from two sources: 10 per cent for the administrative and operational services (AOS) component is paid from the indicative planning figure (IPF) subline while the additional 3 per cent and flexibility are paid out of centrally held resources, which can be seen as the technical support component of support costs for the smaller agencies.

Table 2

United Nations system support for technical services at the project level
Estimated resources under line 2.3

(millions of dollars)

		1997	1998	1999
Line 2.3	United Nations system support for technical services at the project level a/	17.60	17.60	17.60
Special allocations b/		(1.65)	(1.65)	(1.65)
	Estimated resources of which:	15.95	15.95	15.95
	Support for technical services from large agencies c/	10.75	10.75	10.75
	Support for technical services from smaller technical agencies d/	5.00	5.00	5.00
	Support for technical services from regional commissions e/	0.20	0.20	0.20

a/ Calculated annually as 1.6 per cent of $1.1 billion in line with decision 95/23.

b/ Per decision 95/23, a special allocation of 0.15 per cent of $1.1 billion has been established as a charge against line 2.3 for Europe and the Commonwealth of Independent States.

c/ Notional earmarkings that would apply to FAO, ILO, DDSMS, UNESCO and UNIDO.

d/ Notional earmarkings that would apply to IAEA, ICAO, IMO, ITC, ITU, UNCHS, UNCTAD, UPU, WHO, WIPO, WMO and WTO. Replaces agency flexibility payments and payments from central resources for agencies subject to the flat rate support cost regime.

e/ Notional earmarkings that would apply to regional commissions for regional programmes/projects. Replaces payments from central resources for regional commissions which are reimbursed at a flat rate of 13 per cent.

Support for technical services from the large agencies

19. It is intended that a sufficient earmarking be made from line 2.3 to cover the estimated need for support for technical services in the next programming period. Existing operational procedures would continue to apply

and would involve the preparation of separate budgets. Support for technical services would be available in the areas of agency expertise regardless of project execution modality, with particular emphasis placed on technical backstopping of nationally executed projects.

Support for technical services from the smaller agencies and regional commissions

20. As stated above, sufficient resources to cover the estimated support for technical services required from the smaller agencies and from the regional commissions would be set aside from this earmarking. Existing procedures would continue to apply and involve a flat 13 per cent reimbursement rate for technical support and implementation services.

3. Line 1.6: Support for implementation of programmes and projects

21. Resources for implementation, provided for under the IPF subline in the fifth cycle, will now be available under line 1.6, as shown in table 3. These resources are intended to finance administrative and operational services for country activities funded from TRAC lines and intercountry activities funded from line 1.2 (regional) and part of line 1.3 (global and interregional).

22. The provision assumes that at least 50 per cent of these activities will fall under the national implementation modality. Should national implementation levels exceed 50 per cent of programming, any resources for implementation thus saved under line 1.6 would become available for additional programming.

Table 3

Line 1.6: Support for implementation of programmes and projects
Estimated resources

(millions of dollars)

		1997	1998	1999
Line 1.6	Support for implementation of programmes and projects a/	33.0	33.0	33.0
	Estimated resources	33.0	33.0	33.0

a/ Replaces IPF subline resources. Calculated annually as 3 per cent of $1.1 billion in line with decision 95/23.

Implementation services from large agencies

23. The cost of administrative and support services to the five large agencies and UNOPS will continue to be reimbursed at an average rate of 10 per cent of the value of the project. The average reimbursement rate is 10 per cent; however, actual payments are currently made according to varying

percentage rates for different clusters of services. While the agencies and UNDP have been able to establish implementation costs for each cluster, this system has come to be seen as unduly complex from an operational standpoint. Therefore, the Administrator would like to propose further simplification through the application of a flat reimbursement rate of 10 per cent, rather than individual cluster rates. This measure was also supported by the external evaluation of support cost arrangements (DP/1995/23/Add.1). This flat reimbursement rate of 10 per cent would, nevertheless, be subject to possible revisions in the future in line with trends in actual costs.

24. It is recognized, however, that the use of variable cluster rates has led to the establishment of cost measurement systems that have provided useful data and indicators on the actual costs of implementation services. Even though a flat 10 per cent reimbursement rate would be applied, it would nonetheless be useful to continue to maintain such cost measurement systems.

Implementation services from smaller agencies and regional commissions

25. The current regime of support cost arrangements for the smaller agencies and the regional commissions will continue to apply; that is, a flat rate of 13 per cent of project implementation expenditures, as well as flexibility provisions to compensate from diseconomies of scale arising from the relatively small volume of activities undertaken by the smaller agencies. 4/

26. It should also be noted that the earmarking for regional activities (under line 1.2) has been increased from 5.7 per cent of total core resources in the fifth cycle to 7.6 per cent of total resources in the next period. This increase should reinforce the contributions of the smaller technical agencies and regional commissions to UNDP-supported activities, as their work is mainly focused on intercountry activities.

III. EXECUTIVE BOARD ACTION

27. The present report has dealt with the new financial earmarkings for support cost arrangements and the related operational adjustments required. The simplification of support cost facilities under the successor programming arrangements creates the possibility of moving, over time, to an integrated support cost regime that could apply uniformly to the entire United Nations system. The introduction of the broader changes associated with the successor programming arrangements permits consideration of this possibility.

28. At this early stage of implementation of the successor programming arrangements, the Executive Board may wish to take note of the present report and the earlier related document, DP/1995/49, and provide guidance on the issues identified.

4/ These payments are computed on a sliding scale ranging from an additional 1 to 9 per cent over the basic 13 per cent.